



An Overview of FERC's Standard Market Design NOPR

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Standard Market Design

- Notice of Proposed Rulemaking (NOPR) issued July 31, 2002
- Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design
- Docket No. RM01-12-000
- Available on FERC website www.ferc.gov
- Comments due in 75 days



SMD: Making Markets Work for Customers

- Sufficient Infrastructure
- Balanced market rules
- Protect customers through vigilant oversight



Need for SMD

- Inconsistent rules across the US
 - Raise costs for customers
 - Hamper investment in infrastructure
 - Allow discrimination by transmission owners
 - Allow market manipulation



SMD: Overview

- Same set of rules for all users of the grid administered by a fair and independent entity
- Market rules that protect against market manipulation
- Customer protection through market power mitigation measures and oversight
- Clear transmission pricing and planning policies for grid expansion



SMD Builds on Outreach

- RTO Week October 2001
- Conferences-January, February, & July
- Comments on Working Paper and Options Paper
- Meetings with major industry segments
- SMD briefings on NOPR for state commissions and industry



Respect Existing Contractual Rights

- Foundation is bilateral contracts
- Translate existing contracts and bundled retail rights into financial rights
- Supplement bilateral market with spot markets for energy and ancillary services



Coordination with States

- Regional State Advisory Committees for policy issues and RTO management and budget review
- Multi-State Entities for planning, certification, and siting at a regional level
 - Complements recommendation of National Governors Association



Major Elements

- Independent Transmission Provider
- Flexible transmission service-tradable CRRs
- Transmission pricing reforms
- Open and transparent energy spot markets
- Congestion management through LMP
- Market power mitigation and monitoring
- Resource adequacy requirement



Independence

- Remedies for undue discrimination
 - Independent Transmission Provider (ITP)
 - Service under tariff administered by ITP
- Same definition of independence as in Order No. 2000
- Seeks comment on role of ITCs
- Procedures for selecting independent Board of Directors



Network Access Service

- Builds off of existing Network Integration Service
- Adds tradable CRRs
- Available to all eligible customers
- Can be used for bilateral transactions and for transmission of own generation



Transmission Pricing

- Embedded costs - access charge paid by load
- No access charges for transactions across RTO borders
 - Cost allocation remedy for cost shifts
- Pricing of expansions
 - Independence-consider participant funding
 - Without independence- presumption will roll-in cost of expanding high voltage lines



Congestion Management

- Use Locational Marginal Pricing for congestion management
- CRRs – financial rights to hedge congestion costs
- Day-ahead and real-time markets for energy and ancillary services
- Markets operated by independent entity



Regional Planning Process

- Start process within six months to facilitate development of infrastructure
- Ground-up process with regional coordination to address loop flow
- Four regions to start
- ITPs would act as clearinghouse and evaluate alternative proposals



Transition Process

- Customers under OATT ➔ Network Access Service
- Bundled retail service ➔ LSE takes Network Access Service to serve these customers
- Pre-Order No.888 contracts ➔ Can convert to Network Access service, if do not then LSE takes Network Access Service to serve these customers



Initial Allocation of CRRs

- Process allows regional flexibility
- Preference for auction of CRRs
- Allows allocation of CRRs for four year transition period which could be extended



Mitigation Measures

- Three required components
 - **Must offer obligation for localized market power**
 - **Safety-net bid cap e.g., \$1000 Mwh**
 - **Resource adequacy requirement for load**
- Fourth measure could be used if non-competitive conditions exist
 - **Could limit bids if bids are high due to withholding and not scarcity**
 - **Need for measure determined on a regional basis**



Mitigation Process

- NOPR lays out framework
- Market monitor would do regional assessment, e.g., identify load pockets
- Market monitor would propose specifics
 - Compliance filing reviewed by FERC
- Allows flexibility in adapting the measures to regional market conditions



Market Power Monitoring

- Independent market monitoring unit reports to FERC, Regional State Advisory Committee, and Board of Directors
- Evaluate state of markets
- Identify need for changes in market rules
- Identify load pockets and areas where infrastructure is needed for competition



Resource Adequacy Requirement

- Necessary
 - Ensure investment for reliability
 - Lack of price-responsive demand
 - Free rider opportunity to lean on capacity reserves of others
 - Time to site and construct new plants
 - Spot market mitigation measures alone will prevent scarcity price signals that new supply is needed



Resource Adequacy Requirement

- **Annual regional demand forecast by RTO**
- **Minimum 12% reserve margin, region could decide on higher level**
- **Forward looking, e.g., 3 years in advance**
- **Regional flexibility, complements state reserve requirements**
- **LSE that does not satisfy requirement assessed penalties for spot market purchases during shortage conditions**



Implementation

- September 30, 2003 ➤ Bundled retail under tariff
- December 1, 2003 ➤ SMD compliance filings
- 1 Year after Rule ➤ Regional planning
- January 31, 2004 ➤ Security standards
- September 30, 2004 ➤ SMD in effect